

Department of Natural Resources and Conservation
Trust Land Management Division
Montana University System
Annual Report FY 2006



Montana University System – Trust Lands

By the Enabling Act of 1889, the United States Congress granted acreage to the state of Montana for the support of Common Schools (K-12 public schools) and other educational and state institutions. In addition to the common schools, the other institutions include the Veterans Home, the School for the Deaf and Blind, the State Reform School (also known as Pine Hills), Public Buildings, and the Montana University System. Trust land activities related to the University System are the focus of this report.

The State of Montana has five university trust beneficiaries as follows:

- University of Montana (U of M)  **The University of Montana**
- Montana State University (MSU) – Morrill Grant  **MONTANA STATE UNIVERSITY**
- Montana State University (MSU)–Second Grant  **MontanaTech THE UNIVERSITY OF MONTANA**
- Montana Tech of the U of M  **MONTANA STATE UNIVERSITY BILLINGS**
- State Normal School (MSU-Billings and the U of M-Western at Dillon)  **The University of Montana Western**



Main Hall, University of Montana, Missoula.
Photo courtesy of U of M.

Authority for establishing these trusts is included in sections 14, 16, and 17 of the Enabling Act of 1889 and in the Morrill Act of 1862 and 1890, for the Montana State University Morrill Lands. The following excerpt is taken from the Second Annual Report of the State Board of Land Commissioners for the year 1892:

“The grants of land made by the Congress of the United States to the State of Montana as provided in the Act of February 22, 1889, entitled, “An Act to provide for the division of Dakota into two states, and to enable the people of North Dakota, South Dakota, Montana and Washington to form constitutions and state governments and to be admitted into the Union on an equal footing with the original states, and to make donations of public lands to such states,” are shown in Table 1.

Section 14: “That the lands granted to the territories of Dakota and Montana by the act of February eighteenth, eighteen hundred and eighty-one, entitled ‘An act to grant lands to Dakota, Montana, Arizona, Idaho and Wyoming for university purposes,’ are hereby vested in the states of South Dakota, North Dakota, and Montana, respectively, if such states are admitted into the union, as provided in this act, to the extent of the full quantity of seventy-two sections to each of said states...”

TABLE 1

University system Original Grant Acreage

Institution	Original Grant Acres*
Montana Tech (School of Mines)	100,000
State Normal School	100,000
Agricultural College	
MSU – Morrill Grant	90,000
MSU – Second Grant	50,000
U of M	46,080

*Figures 1 and 4 display current acreage by Institution

Section 16: “That ninety thousand acres of land, to be selected and located as provided in section ten of this act, are hereby granted to each of said states ... for the use and support of agricultural colleges in said states, as provided in the acts of congress making donations of lands for such purpose.”

Section 17: “To the state of Montana: For the establishment and maintenance of a school of mines, one hundred thousand acres; for state normal schools, one hundred thousand acres; for agricultural colleges, in addition to the grant herein before made for that purpose, fifty thousand acres.”

These lands are managed under direction from the Board of Land Commissioners by the Trust Land Management Division (TLMD) of the Montana Department of Natural Resources and Conservation (DNRC).

University System Trust Land Acreage

The total acreage for all trusts has fluctuated through the years due to land sales and acquisitions. The acreage for each university is shown in Figure 1. Surface acreage at the end of Fiscal Year (FY) 2006 for the five trusts totaled 235,748 (or 4.6% of the total acreage) and 327,887 mineral acres (5.2%). Mineral acreage exceeds surface acreage because the mineral estate has been retained when lands were sold.

Trust Land Management Division

The mission of the division is to “Manage the state of Montana’s trust land resources to produce revenues for the trust beneficiaries while considering environmental factors and protecting the future income-generating capacity of the land.”

Overview

General background information on the division is available on the department’s web site: www.dnrc.mt.gov/trust.

The Permanent Fund

The Enabling Act states that proceeds from the sale and permanent disposition of any of the trust lands, or part thereof, shall constitute permanent funds for the support and maintenance of public schools and the various state institutions for which the lands had been granted. The Montana Constitution provides that these permanent funds shall forever remain inviolate, guaranteed by the state of Montana against loss or diversion. These funds are often referred to as “nondistributable.” The balance of the Permanent Fund for the university system was \$24,728,860 for FY 2006 as shown in Table 2. Figure 2 shows the Permanent Fund balance over the last three years.

TABLE 2

University System Permanent Fund Balances FY 2004 - FY 2006

Trust	FY 2004	FY 2005	FY 2006
The U of M	\$ 1,497,887	\$ 1,499,962	\$ 1,500,943
MSU - Morrill Grant	3,541,515	3,586,237	3,646,386
MSU - Second Grant	8,474,082	8,472,888	8,475,519
Montana Tech	4,545,212	4,545,537	5,044,678
State Normal School	5,982,974	6,003,215	6,061,334
Total	\$ 24,041,670	\$ 24,107,839	\$ 24,728,860

Revenues

The division is divided into four primary programs: agriculture and grazing, forest, minerals, and real estate management. Staff and program specialists in Helena and Missoula provide program administration, direction, oversight, and support. Field personnel throughout the state provide on-the-ground management.

The department’s obligation is to obtain the greatest benefit for the school trusts pursuant to 77-1-202, MCA. The greatest monetary return must be weighed against the long-term productivity of the land to ensure continued future returns to the trusts. Total gross revenues generated by the TLMD over the last year are listed by activity in Table 4. This table contains not only trust revenues, but Forest Improvement Fees and revenues generated to fund appropriations. During FY 2006, over \$5 million was generated in gross revenues from land management activities and investment interest. Figure 3 illustrates the flow of funds.

Distribution of Revenues

Table 3 shows the distributable and nondistributable interest and income for each of the trust beneficiaries. In FY 2006, the division used a portion of trust land revenues to fund administrative appropriations. From the distributable receipts, a small percentage is used to fund the Resource Development Account, the Timber Sale Account, the

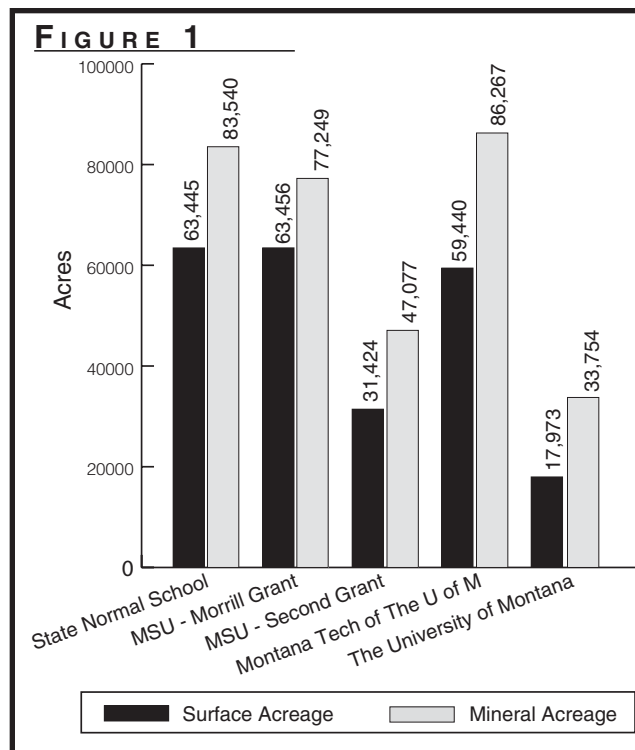


TABLE 3
University System Revenues by Trust 2006

Distributable Revenues Trust	Gross Distributable Revenues	Resource Development	Timber Sale Account	Trust Admin Account	Recreational Use Account	Commercial Leasing Account	Net Distributable Revenues	Permanent Fund Balance
University of Montana	\$ 189,045	\$ 2,882	\$ 29	\$ 0	\$ 357	\$ 336	\$ 185,441	\$ 1,500,943
MSU - Morrill Grant (1)	528,119	0	0	0	0	0	\$ 528,119	3,646,386
MSU - Second Grant	1,585,272	12,439	174,380	0	605	1,272	\$ 1,396,576	8,475,519
Montana Tech	913,477	16,454	14,919	0	1,141	2,163	\$ 878,800	5,044,678
State Normal School	868,918	5,698	80,739	0	1,230	1,582	\$ 779,669	6,061,334
Total	\$ 4,084,831	\$ 37,473	\$ 270,067	\$ 0	\$ 3,333	\$ 5,353	\$ 3,768,605	\$ 24,728,860
Nondistributable Revenues Trust	Gross Nondistributable Revenues		Timber Sale Account	Trust Admin Account			Net Nondistributable Revenues	
University of Montana	\$ 1,147		\$ 0	\$ 166			\$ 981	\$ 1,500,943
MSU - Morrill Grant (1)	60,149		0	0			60,149	3,646,386
MSU - Second Grant	2,755		0	398			2,357	8,475,519
MT Tech	549,993		0	50,852			499,141	5,044,678
State Normal School	66,096		0	9,562			56,534	6,061,334
Total	\$ 680,140		\$ 0	\$ 60,978			\$ 619,162	\$ 24,728,860
Grand Total	\$ 4,764,971	\$ 37,473	\$ 270,067	\$ 60,978	\$ 3,333	\$ 5,353	\$ 4,387,767	

(1) MSU-Morrill Grant administrative costs were paid by the General Fund for FY 2006

FIGURE 2

University System Permanent Fund Balances

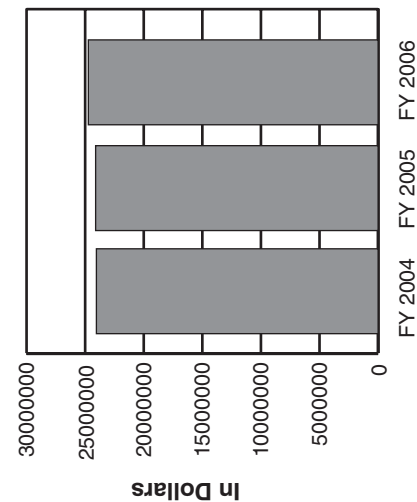
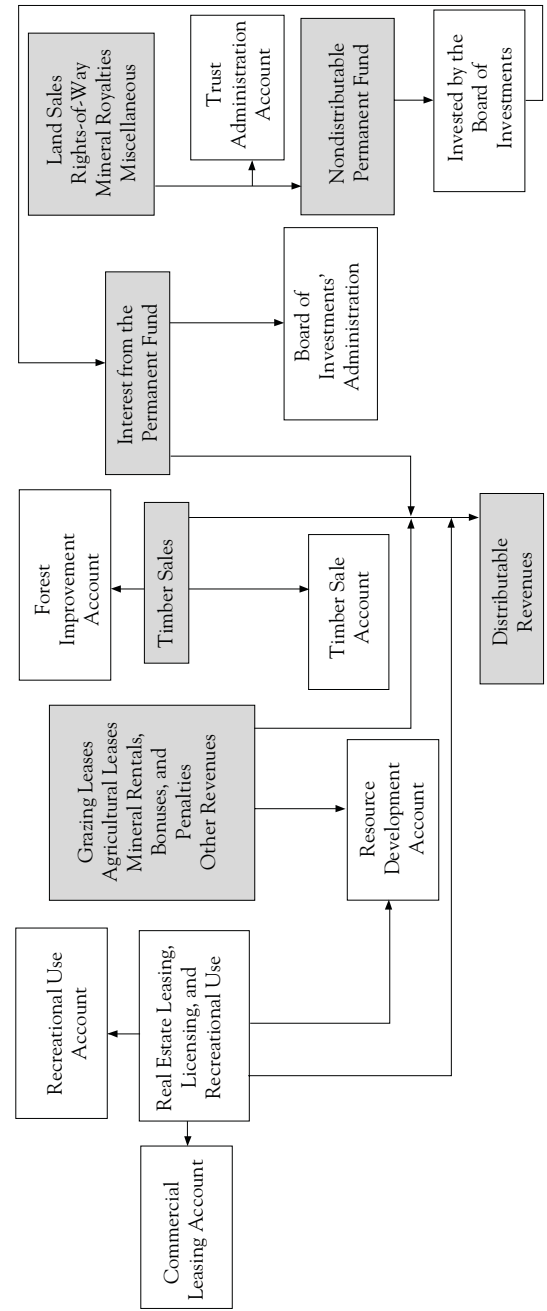


FIGURE 3

Distribution of Revenues from University System Trusts



Recreational Use Account, and the Commercial Leasing Account. The exception is the Montana State University Trust for the Morrill Grant, which does not fund administrative cost accounts. These costs are paid by the general fund. Net distributable revenues for FY 2006 totaled \$3.7 million and net nondistributable revenues of \$619,000 were deposited in the various permanent trusts. Interest in the amount of \$1.4 million was earned on the permanent fund for the combined university system trusts.

Division Overview

The purpose of the TLMD is to administer and manage the state trust timber, surface, and mineral resources for the benefit of the common schools and other endowed institutions in Montana, under direction of the Board of Land Commissioners. The Board of Land Commissioners, which is often called the “State Land Board,” consists of Montana’s top elected officials:

- Brian Schweitzer, Governor
- Mike McGrath, Attorney General
- Linda McCulloch, Superintendent of Public Instruction
- Brad Johnson, Secretary of State
- John Morrison, State Auditor

Agriculture and Grazing Management

The Agriculture and Grazing Management Bureau supervises the management and leasing of agreements for crop and range land uses on school trust lands throughout the state. Administrative staff and specialists in the department’s Helena office and staff in field offices statewide accomplish these duties.

Annual activities of the surface leasing program include processing lease renewals; advertising, competitively bidding, and issuing new leases; reviewing and processing assignments, subleases, pasturing agreements, custom farming agreements, pledges, and mortgages; and collecting, verifying, and posting rentals and fees. Total gross revenues by trust for FY 2006 are shown in Table 4.



The land management program manages the agricultural and grazing resources on lands administered by the bureau. This responsibility includes evaluation and assessment of range and crop land condition; compliance with the Montana Environmental Policy Act (MEPA); administration of archaeological, paleontological, and historical properties on state trust land; investigations of lease noncompliance; participation in the federal Farm Program; and oversight of water developments, water rights, and improvement projects such as range renovation and resource development.

Agricultural and Grazing Lands

Crops raised on trust lands are primarily dry land hay and small grains, but also include irrigated grain crops, corn, sugar beets, potatoes, peas, lentils, garbanzo beans, canola, safflower, alfalfa seed, and native grass seed. Agricultural revenues generated \$292,439 in FY 2006 (see Tables 4 and 5).

Agricultural trust lands are typically leased on a crop-share basis, with the minimum share of 25% set by statute. Table 6 shows production totals for wheat, barley and hay produced on university trust lands in FY 2006. Acreages enrolled in the Conservation Reserve Program (CRP) are also listed. This program pays landowners to remove erodible cropland from production and plant the land in permanent cover. Contracts are normally for ten-year periods.

TABLE 4**Gross Revenue Generated by Activity for the University System FY 2006**

Activity	FY2006
Agriculture & Grazing Management	
Grazing Leases	\$ 306,865
Agriculture Leases	292,439
Totals	\$ 599,304
Forest Management	
Timber Sales	\$ 1,021,531
Forest Improvement Fees	509,011
Totals	\$ 1,530,542
Minerals Management	
Oil & Gas Revenues	
Rentals/Bonuses/Penalties	\$ 186,386
Royalties	66,339
Aggregate Minerals	
Rentals	480
Royalties	250
Other Minerals	
Rentals/Penalties	30,673
Other	2,010
Totals	\$ 286,138
Real Estate Management	
Rights-of-way/Easements	\$ 582,877
Residential Leases/Licenses	695,538
Other Leases/Licenses	102,888
Recreational Use	
General Licenses	2,041
Conservation Licenses	40,911
Special Recreation Use Licenses	12,240
Totals	\$ 1,436,495
Other	
Trust and Legacy Interest	\$ 1,421,503
TOTALS	\$ 5,273,982

Table 6 also shows the carrying capacity of university grazing lands in terms of animal unit months (AUM). An AUM is the amount of forage necessary to support one animal unit (typically a cow/calf pair) for one month. The rental charged per AUM is set by a formula using prices received for beef cattle in Montana. Grazing lands generated \$306,865 for universities in FY 2006 (see Tables 4 & 5).

Forest Management

The mission of the Forest Management Bureau is: "To sustainably manage Montana's forested trust lands to maximize long-term revenue while promoting healthy and diverse forests." Revenue from forested trust lands is mainly derived from the sale of forest products. The State Forest Land Management Plan (SFLMP), approved by the State Land Board in 1996 and associated rules (2003), guide the management of forested trust lands. This guidance is provided in the form of a general management philosophy and specific resource management standards.



Forest management activities are managed in four sections; forest product sales, forest inventory, forest improvement, and resource management.

General background information on bureau activities is available on the department's web site: www.dnrc.mt.gov/trust/fmb.

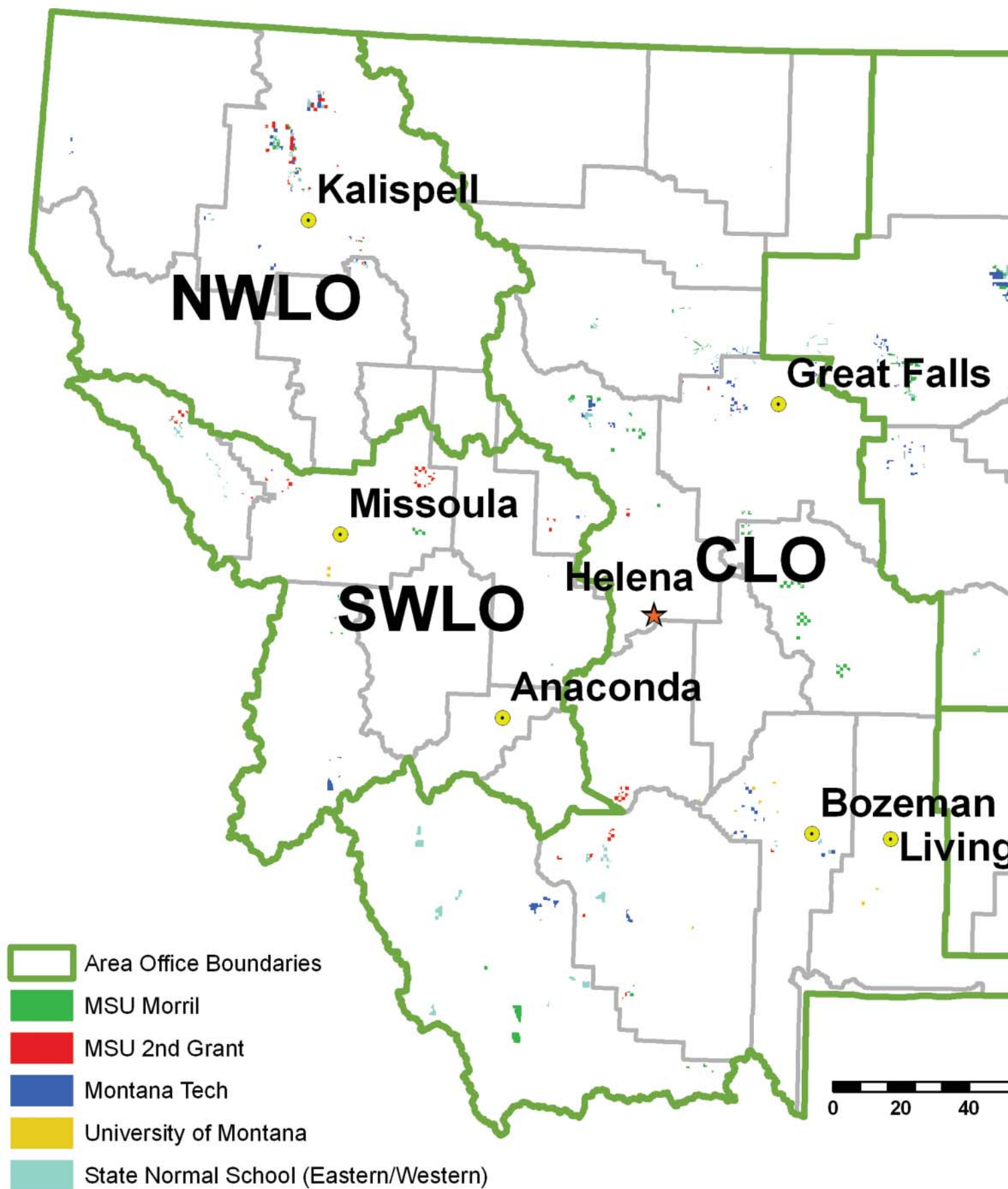
Forest Product Sales

The forest product sales program incorporates activities and expenditures required to grow, harvest, and sell forest products from state trust lands efficiently. All timber sales and permits are developed, analyzed, and reviewed in the field by foresters and resource specialists to ensure that sales comply with all applicable laws, policies, and management direction.

During FY 2006, a total of \$1,021,531 in revenue was generated from timber permits and sales (see Table 7).

TABLE 5**Agriculture and Grazing Revenues**

Trust	FY 2006
University of Montana	\$ 82,442
MSU - Morrill Grant	130,071
MSU - Second Grant	20,718
Montana Tech	224,306
State Normal School	141,767
Total	\$ 599,304

FIGURE 4**DNRC Univeristy System Trust Lands**

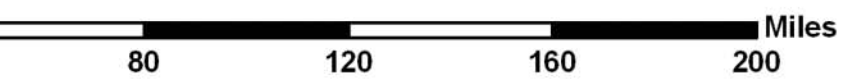


TABLE 6**University System FY 2006 Production**

Grant	Wheat (Bushels)	Barley (Bushels)	Hay (Tons)	AUMs	CRP (Acres)
U of M	36,187		803	3,508	124.60
MSU – Second Grant	865		20	2,664	
MSU – Morrill Grant	15,215	270	131	15,379	150.60
SNS	21,398	18,275	423	13,333	434.93
MT Tech	138,417	8,333	873	1,058	352.60
TOTAL	212,082	26,878	2,250	35,942	1,062.73

Timber sales for the MSU-Second Grant land in FY 2006, included (see Table 8):

- The Gladstone sale (Sec 34, T15N, R5W) on the Helena Unit in the Central Land Office.
- The Dog Meadow South Sale (Sec 28, 33, T33N, R23W) on the Stillwater State Forest.
- The Happy Valley Sale (Sec 29, T30N, R21W) on the Kalispell Unit in the Northwestern Land Office.
- The Freezeout Salvage Sale on the Missoula Unit in the Southwestern Land Office.

Timber Sales on the State Normal School grant:

- Taylor South Sale (Sec 6, T32N, R22W) on the Stillwater State Forest.

Forest Improvement

The Forest Improvement Program uses fees from harvested timber to improve the health, productivity, and value of forested trust lands. Use of these fees authorized by statute include disposal of logging slash, reforestation, acquiring access and maintaining roads necessary for timber harvest, other treatments necessary to improve the condition and income potential of state forests, and compliance with other legal requirements associated with timber harvest. In FY 2006, the department collected \$509,011 in Forest Improvement fees from the University System lands. The average Forest Improvement fee on volume sold dropped from \$56.80 per thousand board feet in FY 2005 to \$18.46 per thousand board feet in FY 2006.

Table 9 shows the amount of forest improvement fees collected during FY 2006 by grant. Table 10 shows the forest improvement activities by grant, including the number acres and approximate location.

TABLE 7**Timber Revenues**

Trust	FY 2005	FY 2006
University of Montana	\$ 20	\$ 110
MSU - Morrill Grant	118,561	1,327
MSU - Second Grant	1,050,918	658,738
Montana Tech	101,932	56,358
State Normal School	728,568	304,998
Total	\$ 1,999,999	\$ 1,021,531

TABLE 8**Timber Volume Harvested by Trust for FY2006**

	Thousand board feet (MBF)
University of Montana	5.00
MSU - Morrill Grant	56.88
MSU - Second Grant	139.00
Montana Tech	360.06
State Normal School	139.00
Total	1,479.34

TABLE 9**Forest Improvement Fee Collections**

Trust	FY 2005	FY 2006
University of Montana	\$ 0	\$ 0
MSU - Morrill Grant	0	0
MSU - Second Grant	205,208	99,407
Montana Tech	20,701	89,248
State Normal School	109,046	320,356
Total	\$ 334,955	\$ 509,011

Access Program

In the Freezeout Access Acquisition, 1.7 miles comprised of three segments, was acquired from Plum Creek Timber on the MSU-Second grant. The trust obtained permanent access to 118.9 acres.

Forest Inventory

The Forest Inventory Program is responsible for collection and analysis of forest resource inventory data. Stand-level resource data and the development and maintenance of a geographic information system (GIS) are used to support planning for forest management activities, environmental analyses, and other activities. Each year the Technical Services Section processes and updates changes to the stand-level inventory data layer, road layer, and other GIS layers.

Resource Management

The Resource Management Section (RMS) provides technical assistance to field staff in the disciplines of hydrology, soils, geology, fisheries, wildlife, sensitive plants, road engineering, and riparian grazing. Technical assistance provided by the section staff includes field reviews, project analysis, Montana Environmental Policy Act (MEPA) document preparation, recommendation and design of mitigation measures and other contract provisions, and timber sale document review.

Minerals Management

TABLE 10

Forest Improvement Activities FY 2006

MSU-Morrill Grant

Precommercial Thinning	46 acres near Olney
Brush Piling	15 acres near Olney
Pile Burning	81 acres near Olney
Tree Planting	140 acres near Olney
Noxious Weed Control	18 acres near Kalispell
Regeneration Surveys	30 acres near Kalispell

MSU-Second Grant

Pre-commercial Thinning	112 acres near Clearwater Junction
Brush Piling	117 acres near Olney
Pile Burning	8 acres near Olney
Tree Planting	112 acres near Olney
Noxious Weed Control	4 acres near Kalispell

Montana Tech

Precommercial Thinning	69 acres near Olney
Brush Piling	42 acres near Olney
Hand Brush Work	38 acres near Olney
Pile Burning	19 acres near Olney
Tree Planting	130 acres near Olney
Herbicide Application	124 acres near Kalispell
Noxious Weed Control	20 acres near Kalispell
Regeneration Surveys	177 acres near Kalispell
Tree Browse Prevention	124 acres near Kalispell

State Normal School

Precommercial Thinning	42 acres near Olney
Brush Piling	83 acres near Olney
Pile Burning	8 acres near Olney
Tree Planting	130 acres near Olney
Herbicide Application	124 acres near Kalispell
Noxious Weed Control	30 acres near Kalispell
Regeneration Surveys	177 acres near Kalispell
Tree Browse Prevention	124 acres near Kalispell

The Minerals Management Bureau is responsible for leasing, permitting, and managing oil and gas, metalliferous and nonmetalliferous, coal, and sand and gravel agreements. General background information on bureau activities is available on the department's web site: www.dnrc.mt.gov/trust/mmb.

Mineral Leasing

The program is responsible for reviewing and processing all mineral lease and permit applications; advertising, competitively bidding, and issuing new leases; reviewing and approving lease assignments; and collecting, verifying, and posting lease rentals and production royalties. Revenues received in FY 2006 are listed in Table 12. Revenues by trust and activity are shown in Table 11.

Oil and Gas Leasing

The oil and gas leasing program is responsible for the leasing and monitoring of oil and gas leases. Activities related to existing leases include collecting, verifying, and posting rental, royalty, delay drilling, and shut-in payments; reviewing and approving assignments and tracking working interest ownership; reviewing and preparing for approval communitization agreements and unit operating agreements; and coordinating with field offices the review and approval of all proposed physical operations on state leases.

TABLE 11**Mineral Revenues by Trust and Activity for FY 2006**

Revenue	MSU Second	MSU Morrill	State Normal	Montana Tech	Univ of Montana	Total
Oil & Gas Leases		\$ 19,811	\$ 6,963	\$ 14,629	\$ 1,373	\$ 42,776
Non-drilling Penalties		12,496	1,200	9,402	2,290	25,388
Mineral LULs	\$ 120		390			510
Gas Royalties		56,859	9,480			66,339
Sand&Gravel	2,753	2,990		24,033	897	30,673
Oil & Gas Bonus Payments		111,953	6,270			118,223
Metalliferous Leases					480	480
Metalliferous Royalties					250	250
Surface Damage to Leased Land					1,500	1,500
Total	\$ 2,873	\$ 204,109	\$ 24,303	\$ 48,064	\$ 6,790	\$ 286,139

In addition, four oral auctions of new oil and gas leases are prepared and conducted each year.

Other Mineral Leasing

The other mineral leasing also administers a wide variety of leases – including metalliferous and nonmetalliferous leases, coal leases, gravel permits, and land use licenses for nonmechanized prospecting – for all other mineral activity on state trust land. Royalties and rentals are collected on coal, bentonite, clay, gold and associated minerals, peat, and shale.

TABLE 12**Mineral Revenue**

Trust	FY 2005	FY 2006
University of Montana	\$ 33,416	\$ 6,790
MSU - Morrill Grant	67,879	204,109
MSU - Second Grant	3,264	2,873
Montana Tech	16,959	48,064
State Normal School	23,694	24,303
Total	\$ 145,212	\$ 286,139

Royalty Auditing and Accounting

The Royalty Audit Program provides additional revenue to the school trusts through programmatic audits. The program identifies royalty under- and over-reporting, rectifies discrepancies, and raises the level of voluntary compliance. Most audits have a single payor and involve multiple leases.

Real Estate Management

The Real Estate Management Bureau (REMB) administers activities on lands classified as “other” and all secondary activities on lands classified as grazing, agriculture, or timber. For more information on the REMB, please visit our web site at www.dnrc.mt.gov/trust/remb.

Leasing/Licensing/Easements

The REMB manages all real estate transactions on trust land, including leasing/licensing, land exchanges, land banking, commercial uses, wind energy, recreational uses, and rights-of-way.

Revenues for FY 2006 are listed in Table 13. Of the \$798,425 generated by the leasing/licensing, cabinsite leases were the primary generator of this revenue.

In FY 2006, the five university system trusts generated gross revenues of \$582,877 from one-time easement income, and \$853,617 from annual lease revenue for a total of \$1,436,494.

Easement income was generated from historic rights-of-way, road, and utility easements. Montana Tech had a one-time easement of \$525,000 from the Montana Department of Fish, Wildlife and Parks purchased for a fishing access site on Echo Lake in Northwest Montana, North of Bigfork (see Figure 5).



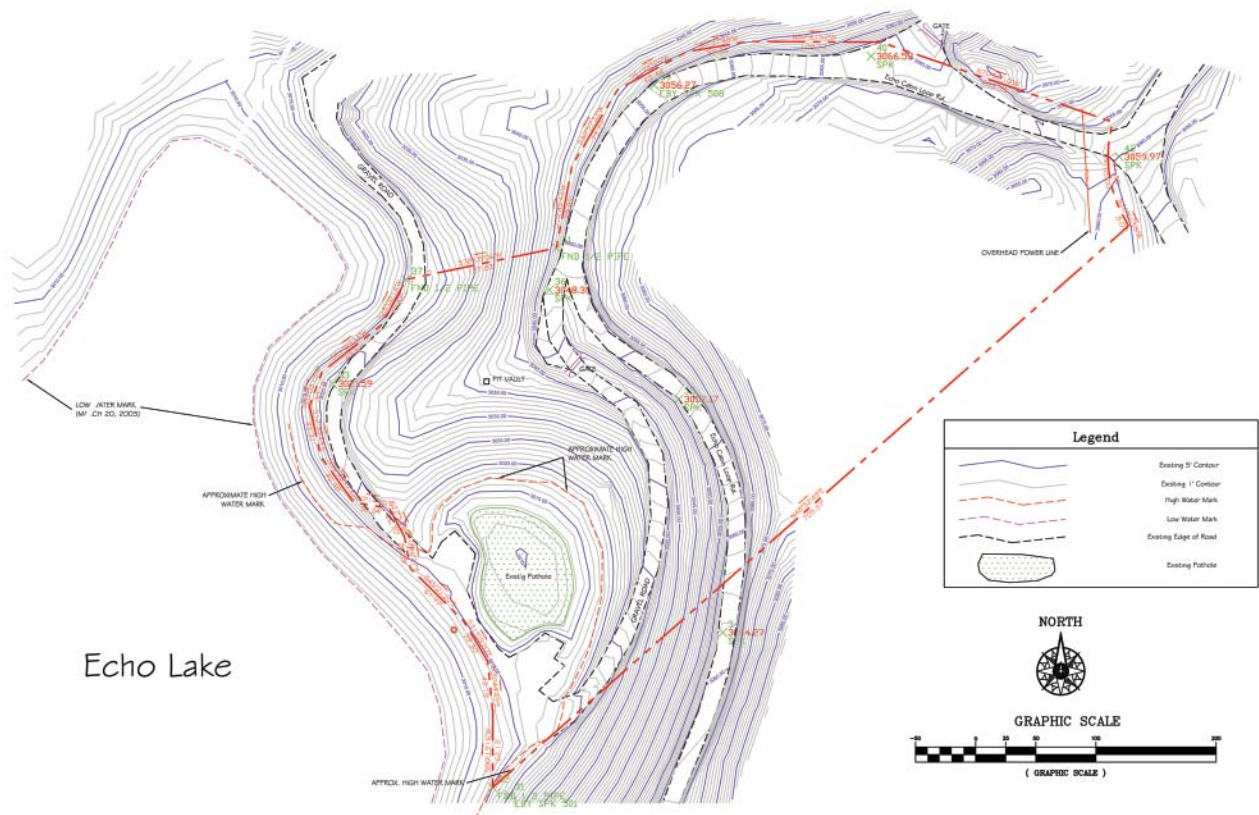
The lease and license revenue shown in Table 13 is led by the MSU – Second Grant, which has 230 separate lease and license agreements from a variety of uses. One hundred ninety of these are residential leases in the Southwestern Land Office, in areas, which include Placid Lake, Seeley Lake, and Morrell Flats, near Seeley Lake.

Montana Tech has 132 leases and licenses, most are in northwestern Montana, 103 of which are in the Northwest Land Office on particularly valuable tracts of recreational land such as Beaver Lake, Echo Lake and Lake Rogers. Montana Tech has one industrial lease that contributes \$50,000 annually.

The University of Montana has six active leases, four recreational use licenses and five land use licenses during FY 2006.

TABLE 13**Gross Revenues for Real Estate Activities by trust and category for FY 2006**

Trust	Lease and License Revenue	Easement Revenue	Rec Use and Other	Total
University of Montana	\$ 9,628	\$ 0	\$ 3,362	\$ 12,990
MSU - Morrill Grant	22,653	300	17,803	40,756
MSU - Second Grant	397,807	0	11,701	409,508
Montana Tech	327,281	525,961	10,742	863,984
State Normal School	41,056	56,616	11,584	109,256
Total	\$ 798,425	\$ 582,877	\$ 55,192	\$ 1,436,494

FIGURE 5**Fishing Access Site Location on Echo Lake**

Drawn By: Terry Campbell	DATE: 2/3/06	REVISOR: T.C.	DATE: 2/7/06	APPROVED BY:	DATE:
CHECKED BY:	DATE:	APPROVED BY:	DATE:	APPROVED BY:	DATE:



Montana Fish & Wildlife

Echo Lake FAS – Existing Site
Bigfork, MT

SHEET: 1 of 1



Pictures from left to right: McMullen Hall, MSU-Billings; Marcus Daly, Montana Tech-U of M; Main Hall, U of M-Western; Main Hall, U of M-Missoula; and Montana Hall, MSU-Bozeman

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